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MEMORANDUM FOR: Robert A. Mosbacher
Secretary

FROM: Frank DeGeorge
Inspector General *Frank DeGeorge*

SUBJECT: Report on Iraqi Export License Information
Bureau of Export Administration
STD-206-1-0004

Inspector General

At the request of the Department's General Counsel, we reviewed the releases of Iraqi export license information to the Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. Our review disclosed no evidence that Bureau of Export Administration personnel deleted entire export license records before they submitted the information requested by the Chairman. However, we did confirm an initial report by the former Under Secretary for Export Administration that a small percentage of certain data of the Iraqi export licenses processed were changed in submissions to the Hill.

Bureau personnel, including the former Under Secretary, stated that while preparing printouts for submission to the Chairman, changes were made to selected data on 66 approved export licenses for sales to Iraq. Our review disclosed changes to data on two additional licenses concerning trucks. Bureau personnel also changed permanent records on the Export Control Automated Support System database, compromising the integrity of the Iraqi license records. Neither the changes to the data provided to the Chairman nor the changes to the system database were adequately supported. Our review disclosed that the former Under Secretary concurred with all changes to the data sent to the Chairman, but was unaware of any system database changes. With the exception of changes to five truck licenses to remove a reference to their potential military use, the changes were inconsequential and eliminated apparent inconsistencies in the license information.

This report contains recommendations to ensure the integrity of the export licensing data and any such data submitted to the Congress in the future. These recommendations have been discussed and agreed to by Bureau officials; we are therefore issuing this report in final form. Department Administrative Order 213-5 requires operating units to submit an audit report action plan, including a timetable for implementation of the recommendations, within 90 days of the date of the audit report. Accordingly, we request that the acting Under Secretary of the Bureau of Export Administration be directed to submit such a

plan. We are providing a copy of this report to the acting Under Secretary and to the General Counsel.

Introduction

Beginning in September 1990, Congressman Doug Barnard, Jr., Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations, sent several requests to the former Under Secretary for the Bureau of Export Administration for lists of export license information on Iraq from 1985 through 1990. The former Under Secretary responded with computer printouts on October 10, October 24, and December 12, 1990.

The October 10 printouts did not show whether the licenses were referred to other departments under applicable licensing regulations. The regulations require BXA officials to submit certain license applications to the Departments of State, Energy, and Defense. The October 24 printout showed information on the referral to other agencies, but it did not show the other departments' responses or recommendations. The December 12 printouts showed all referral information, including the other departments' recommendations.

On February 8, 1991, the Department's General Counsel asked the former Under Secretary to provide a report addressing whether (1) the printouts were misleading, (2) certain end users of the licensed commodities were deleted or changed, and (3) the characterizations of the licensing information had been materially changed from those originally in the system database. This information was requested because of media-reported allegations that export license information and records were deleted from the Bureau's files. The former Under Secretary provided the report on February 26, 1991, acknowledging that changes were made to the information given to the Chairman.

On March 11, following continued media reports that Iraqi export license information was deleted from the Bureau's files, the General Counsel asked the Office of Inspector General to review this matter.

Purpose and Scope of Review

The purpose of our review was to determine (1) if any changes were made to the information prior to submission to the Chairman, (2) if any changes were made to the export control automated system database records, and (3) the accuracy and completeness of notations indicating the positions of other departments involved in reviewing licenses for exports to Iraq.

We interviewed Commerce officials involved in preparing the responses to the Chairman, including the former Under Secretary.

and officials from the Defense, State, and Energy Departments. We reviewed the Bureau's support for the acknowledged changes to the printouts furnished the Chairman, and determined whether Bureau personnel had also changed other license information in the export license system database. Bureau officials did not maintain any copies of the printouts provided to the Chairman, so we obtained Iraqi license information stored on magnetic tape as of May 22, 1990, and provided last August by the Bureau to another government agency. The tape did not include archived export license data for fiscal years 1985 and 1986. We also obtained a copy of the printouts from the congressional committee that received the information. We compared the copies of the printouts submitted to the Chairman with the information provided on the May 22, 1990, computer tape. We also compared the data shown on the December 12 printout with the data from the May 22 magnetic tape to determine the reliability of the Iraqi information in the database -- that is, whether export license records were deleted from the database.

We did not examine the internal controls over the input and maintenance of data in the export licensing system. Instead, we have initiated a separate review over these controls and will provide you with a copy of that report when that review is completed.

This review was performed at Bureau headquarters and at the Departments of Defense, State, and Energy in Washington, D.C. Except as noted above, the review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

Bureau Personnel Changed Information on 68 Licenses

In his report to the General Counsel, the former Under Secretary stated that Bureau personnel changed licensing data on 65 of the 1,126 licenses (later amended to 1,130) processed for Iraq from 1985 through August 2, 1990. Bureau personnel acknowledged one additional license data change as we began the audit. During our review, we identified two additional license data changes that were not previously acknowledged, bringing the total to 68.

The license data changes were as follows:

- (1) Descriptions of trucks were changed on five license records to eliminate a reference to a design for military use.
- (2) Notations were removed on 19 license records that had indicated referrals of licenses to another agency.
- (3) Stated positions of other agencies that review or approve

licenses were changed on 39 license records.

- (4) End use statements were changed on five licenses. On four licenses for equipment used in a "magnetic media factory," the descriptions of end uses were expanded. The expansion added the phrase "to [manufacture] video tapes for consumer electronics." On one license, the exporter had inserted a comment that, "According to our information the end user is involved in military matters" in the end use field. Bureau personnel deleted the comment.

Changes to "Military Truck" Licenses Unjustified

The export regulations provide an export control commodity number and general description for each commodity to be exported. Bureau personnel changed the commodity description for trucks from "VEHICLES DESIGNED FOR MILITARY USE" to "COMMERCIAL UTILITY CARGO TRUCKS" or "VEHICLES." The former term is consistent with the terms used in the export administration regulations as the general description of the trucks. We found no changes to general descriptions of other licensed commodities that made them inconsistent with the regulations.

A Bureau official told us the commodity descriptions were changed to clarify that the Bureau does not license the sale of military trucks. The official also said that the description changes were justified by a State Department letter to an exporter in 1983. The letter indicated that the exporter's trucks, which were intended for sale to Iraq, were classified as "commercial utility cargo truck(s)."

We disagree with both reasons for changing the commodity descriptions. The export administration regulations allow the Bureau to approve licenses for the sale of military trucks that are not on the U. S. Munitions List. Such vehicles are primarily transport vehicles designed for noncombat military purposes. Additionally, when we discussed the contents of the 1983 letter with State Department officials, they informed us that the letter provides no justification for the description changes. It merely informed the exporter that the trucks are not on the munitions list and can be licensed by the Bureau. We conclude that the changes were unjustified and misleading.

Bureau personnel changed five licenses for trucks, including the two that we found. The total value of the licensed trucks was over \$1 billion, or approximately 2/3 of the total value of the approved export licenses for Iraq during the period under review. In fact, more than 97 percent of the total value of the changed licenses is accounted for by changes to the truck licenses. Although the licenses were approved, Bureau personnel informed us that no licensed trucks have been shipped.

Justification for Deleting Computer Parts and Components Referrals Not Clear

Bureau personnel deleted 19 referral notations to other agencies; however, those actions were not clearly justified. Nine referrals to the Defense Department for computer parts and components were deleted, and ten other referrals for various other commodities were also deleted. Bureau personnel told us they deleted the notations related to the computer parts and components because the Licensing Officers' Operating Manual stipulates that parts and components licenses should not be referred to the Defense Department.

We reviewed the operating manual and found that it contained conflicting procedures as to whether licenses for computer parts and components should be referred to another agency. A dated procedure could be used to justify the referral notation deletions, but a more recent procedure required that the licenses be referred to the Defense Department for approval. Notwithstanding the position of Bureau personnel that computer parts and components need not be referred to the Defense Department, they were referred and licensing issues were settled among the appropriate agencies. Under the circumstances it would have been more appropriate to have included the referrals in the printouts and explain the resultant positions where necessary.

We did not review the entire manual to see if it contained other conflicting or confusing procedures. However, Bureau officials should perform such a review to ensure that licensing personnel have clear, unambiguous procedures to apply to each license application.

Adequate Documentation for Many Changes Not Provided by Bureau Personnel

We reviewed the 39 changes made to other agency positions to determine whether the changes were well documented and supported. Bureau personnel told us that the changes to other agency positions were "corrections" supported by export licensing regulations and files of original documents.

Our review of the documentation used to support the changes showed that 13 of the changes were based only upon the Bureau licensing officer's written notation that an agency position had changed. We also found that 31 of the 39 changes were not supported by reliable independent documentation. The licensing officers often did not base the changes on independent supporting documentation such as memoranda prepared by officials of other agencies.

Bureau personnel also did not provide adequate support for changes that removed notations indicating referral to other

agencies. Additionally, each license application must include a statement on the end use of the commodity being exported. Bureau personnel did not provide adequate documentation to support the changes in the end use statements.

Bureau personnel stated that they had discussed all changes with officials of other agencies to confirm that the changes accurately reflected their positions. Bureau personnel further stated that these officials concurred with the changes.

We asked officials at the Energy, State, and Defense Departments to verify statements by Bureau personnel. The Energy Department official disagreed with three of 10 position changes. However, he did not indicate that additional action to correct the record was needed. A Defense Department official stated that approximately 30 percent of the licenses were approved "with conditions," while the Bureau's records indicated that the licenses were simply approved. Another Defense Department official stated that he told the committee staff that he was satisfied with the presentation of the Defense Department's positions on the printout. The State Department did not disagree with the stated positions. As a result of the other agency officials' comments, we consider the changes to the positions and the deletions of the referrals to have had little effect on the Iraqi license information given to the Chairman.

We found that the other agencies did not maintain complete records of the license applications submitted for their review. Defense Department officials told us they depended upon the Bureau's files to support the changes in their positions.

Permanent Changes to the Export Control Automated Support System Were Made Without Adequate Support

The Bureau maintains the Export Control Automated Support System, which provides license processing and historical information on export licensing activities. It also provides the data needed to support enforcement actions for export license violations. The system contains the official license application, the application tracking information, the license, and the follow-up actions.

The system allows changes to applications before they are approved; however, once a license is issued it becomes an historical record and no changes by licensing officers are permitted. The date of final action is entered automatically by the system and cannot be changed. Changes to the database can be made only by computer personnel within the Operations Division with the specific authorization of the Director, Office of Information Resources Management.

We found that Bureau personnel forwarded a list of the previously stated changes to BXA's Office of Information Resources

Management, with a request to change the permanent licensing database. OIRM officials acknowledged that they changed the license records solely on the basis of the highlighted list and oral assurances by licensing officials that the changes were justified. They neither reviewed the documentation used to support the changes nor requested copies to maintain in case questions arose in the future.

OIRM officials should have required authorization and sufficient supporting documentation before changing permanent records in the system. Changing system data without support compromises the system's integrity and confidentiality.

Recommendations

We recommend that the acting Under Secretary for Export Administration take the following actions:

1. Ensure that any future changes to export license information submitted to Congress and to the Export Control Automated Support System are authorized and adequately supported with appropriate documentation.
2. Retain complete documentation of the positions of all agencies involved in processing export licenses.
3. Ensure that the system database accurately reflects all agency positions.
4. Clarify the procedures in the Licensing Officers' Operating Manual for the referral to the Defense Department of license applications for computer parts and components intended for shipment to specific countries.
5. Ensure that the Licensing Officers' Operating Manual is reviewed to eliminate other conflicting or confusing licensing procedures.

cc: Wendell Willkie
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